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PurchasingWorld®

THE BUYER'S MAGAZINE

AUGUST 1989

Purchasing software: readers quiz vendors

- Vendor-supplied software
- Murray: software copyrights
- Chemical runup over?
- Notes for new buyers

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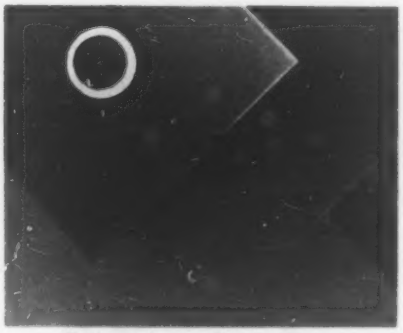

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But first, a correction...

In our May issue, we reported on some long-lived work gloves—except we got their life wrong. The gloves, instead of lasting *four* hours, as reported, actually last *24* working hours, and can be laundered twice into the bargain. Our apologies to Linda K. Ferrell, the buyer who found these gloves, and Jomac Products, the glove maker.

EDI flexibility gets contract

Flexibility to provide immediate electronic data interchange has assisted Pilot Air Freight in gaining a government shipping contract amounting to more than 14 million pounds of Navy materials a year.

According to Dick Morris of Pilot, a Navy GTA (guaranteed traffic award) was made to his company because of its flexibility and speed in providing EDI between its 62 domestic stations. The program will cover anything from ship gun turrets to electronic airplane components, which will be shipped in from the fleets to vendors in the U.S., repaired, then shipped back into the Navy pipeline. Major points of origin for the program will be Norfolk, VA, San Diego, CA and Cherry Point, NC. *Pilot Air Freight, Route 352, P.O. Box 97, Lima, PA 19037* **Circle 295**

Sunbelt manufacturing without relocating your business

Air Management Industries has established its FAB Division to enable small and mid-sized companies to gain the advantages of lower manufacturing costs found in the Sunbelt without physically relocating. Top management personnel within the FAB will work with clients to establish full production requirements; when data is gathered, a plan is developed ranging in magnitude from the manufacture of small subassemblies to joint venture relationships in which Air Management handles the complete manufacturing of a product line, leaving the client only the responsibility for marketing and entering for production through a computer modem hookup. Air Management welcomes inquiries addressed to *P.O. Box 1738, Cushing, OK 74023* **Circle 294**

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Taboos of international trade

What to do and what *not* to do in international trade is the subject of this complete guide which offers to steer international business people around the multitude of pitfalls which can ruin a deal.

Expanding trade overseas can be a rewarding and exciting experience for a small business, but basic cultural and legal differences must be faced. Roger E. Axtell, an international expert and author, tells about those differences in his new "how-to" guide for U.S. firms wanting to get into international trade. The guide also tells how to start, where to go for help, how to make the first trip abroad, etc. Export laws, shipping, documentation, insurance and how to make certain you get paid properly are also covered. *John Wiley & Sons, 605 Third Ave., New York, NY 10158* **Circle 297**

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by Robert S. Reichard, editor-in-chief

Price indicators back off

Inflationary concerns are fading rapidly. And with good reason—most key price indicators are backing off from their recent high levels.

Especially noteworthy: The latest NAPM Business Survey Committee responses. the number reporting lower quotes topped those reporting boosts for the first time in nearly three years (34 months to be exact). Specifically, 18% noted lower prices compared to 16% noting increases. That's pretty encouraging compared to just two months earlier when only a minuscule 5% were lucky enough to get decreases—nowhere near the 43% being socked with new boosts.

Mirroring the drop-off in price pressures is the number of commodities reported to be up in price—only six—the fewest since December, 1986. Also 17 commodities were said to be declining (many of which were only recently rising).

The list of declines is impressive—including aluminum, brass, copper, nickel, zinc, benzene, ethylene, formaldehyde, methanol, MLK, phenol, phenokic resins, polyethelene resins, polystyrene, styrene, soybean oil and diesel fuel.

Upshot of all this: the NAPM price barometer (a seasonally adjusted diffusion index where 50 is regarded as neutral) dropped to 48.5—an eye-opening 20 points under the readings of just a few months earlier. The more comprehensive producer price index for durables is also looking a lot better these days. During the past six months, for example, the inflation rate here has been pegged at only about 1% at annual rate—down from the 2.7% pace of the previous half year.

Equally impressive is the decline in industrial spot material quotes. The index here has now been falling for three consecutive months. Point to keep in mind: this is a grass roots barometer—one that captures change at the first stages of demand. And traditionally this has signalled similar movements further on up the production line within a matter of just a few months.

Some of the declines here have been rather impressive. Double-digit drops have hit several nonferrous metals. And while steel lists have held for the most part, discounts have become somewhat easier to negotiate. Plastics, too, have been edging lower. And paper, after the big runups of the past year, now looks to be taking a breather.

Finally, don't forget oil prices. The price curve here has already topped out. And judging from rising OPEC output, some price declines are possible this summer and fall.

Not surprising, the Fed has also become a lot more optimistic about holding the line on inflation—and hence is already in the process of easing its pressure on the monetary brakes.

The attitude here is perhaps best summed up by the Fed Board of Governor's vice-chariman Manuel Johnson. He notes that PMs feel input prices will generally turn downward in coming months as factories face weaker demand—something that will lead to what he calls a "growth recession"—a phrase indicating decelerating economic gains.

This weaker demand, in turn, means improved availability. Indeed, factory utilization rates are already edging lower—giving PMs considerably more bargaining leverage.

What does it all add up to? One index of future price changes (prepared by the Center for International Business Cycle Research at Columbia University) has dropped sharply.

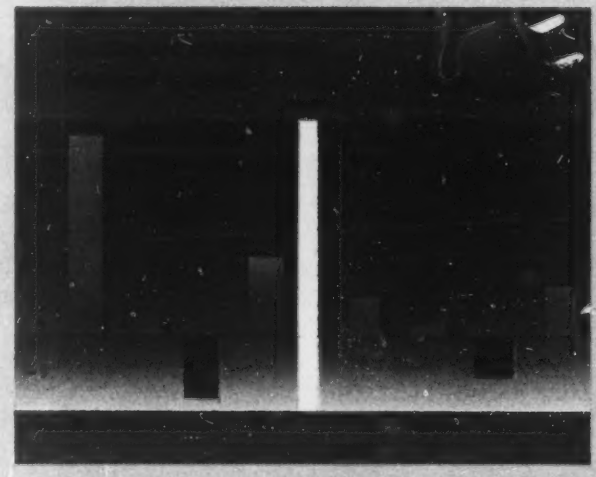
And econometric models, probably looking at the same basic price determinants, tell much the same story. Wharton Econometric Forecasting Associates (the WEFA Group) new sees the overall industrial producer price index (covering non-durables as well as durables) rising at only a 1-2% annual rate in the second half—a far cry from the 8-9% pace of the first six months of the year.

Semiconductor book-to-bill falls

The currently buoyant semiconductor market may be heading for a respite.

So say analysts at Henderson Ventures, a Los Altos, CA-based electronic research outfit. One sign of a coming slowdown: falling book-to-bill ratios. This bellwether indicator of industry health has been showing signs of slipping below 1—meaning that orders in some recent months have been below shipments.

Also indicative of a cooling off: 1) the rate of order



growth has been slowing and 2) inventories held by both OEMs and component manufacturers are beginning to rise.

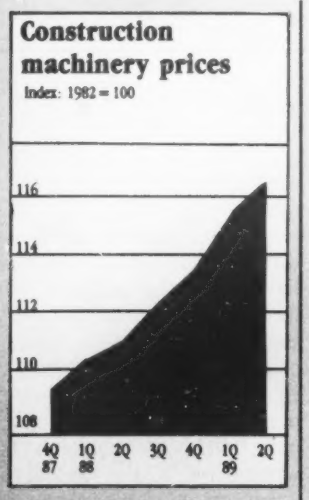
Why the flattening in demand? Among many factors, Henderson cites that sales of computers, the most important part of the end market, are slackening. The initial burst of PS/2 demand has been satisfied. And although there is an Intel 486 microprocessor on the near horizon, it does not appear to have the price-performance profile necessary to create a large new burst of demand in the PC market.

This demand slowdown, in turn, can be expected to impact on price. So will the fact that supplies of DRAMs and other high-priced short-supply ICs are being ramped up. This will create better market balance to the point where prices for all components can be expected to soften in the months ahead.

Combine these projections for lower demand and softer prices—and the end result is falling dollar demand. Specifically, merchant market purchases of semiconductors are projected to increase by only 6.6% this year—well under the 30%-plus advance of 1988. And a 9.8% plunge is seen for 1990. (See accompanying chart for details.)

Passive components are expected to follow a similar pattern. During 1989, these items are targeted to advance only 2.2%—compared to the 9.7% gain of last year. And 1990 purchases of these items could fall by upwards of 5%.

Construction machinery heads upward



Price increases are beginning to accelerate. Following last year's relatively small 3% advance, boosts so far this year may have already added another 5-6% onto the average purchase price. And by year end the increase could be approaching the 8-10% range. Biggest boosts look to be in front-end attachments, cranes, crawler-type tractors and off-highway trucks. Blame it all on good demand, rising production costs and low producer inventories. On the latter score, one large manufacturer estimates that more than half of its construction equipment is now in short supply.

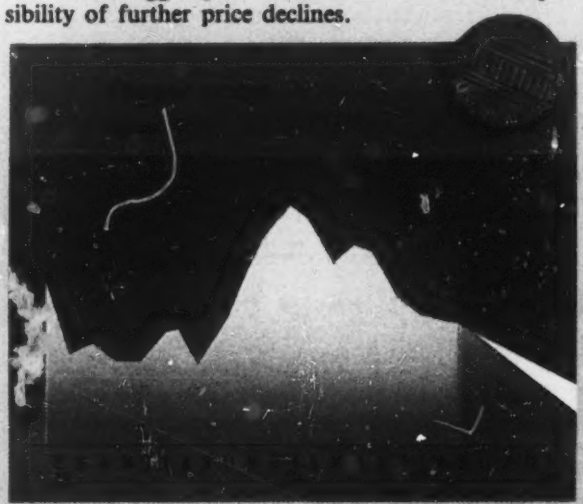
Copper gets reasonable

CURRENT SITUATION: The red metal is a lot more reasonable than it was a few short months ago. Much of the softening stems from a much more optimistic labor picture. Also contributing to overall market weakness: 1) less ebullient overall demand and 2) recent and announced increases in global output. In any event, **current quotes are now running more than 25% under the $1.50/lb. and higher peaks prevailing earlier this year.**

DEMAND: Ordering has slowed down a bit. Part stems from the improving supply outlook. Another factor could be the normal summer slowdown. But over and beyond all this are the reduced consumption requirements by the auto and construction industries. Another sign of easing: year-to-year service center shipment gains are beginning to slow down. **As for U.S. consumption gains for all of 1989, most forecasts suggest only about a 2% advance.**

SUPPLY: Availability should continue to improve—assuming, of course, no sudden big strike or other supply interruption. Thus, this year's world refined production should exceed demand by 50,000-130,000 tons. Also worth noting: the euphoria sparked a tremendous number of mine expansion plans. **Right now all signs point to about 1.5 million tons per year of new global production potential** over the four year period ending in 1992. Demand would have to increase about 3.7% a year to absorb that much additional capacity—and, as suggested above, consumption gains of this magnitude are not in the cards.

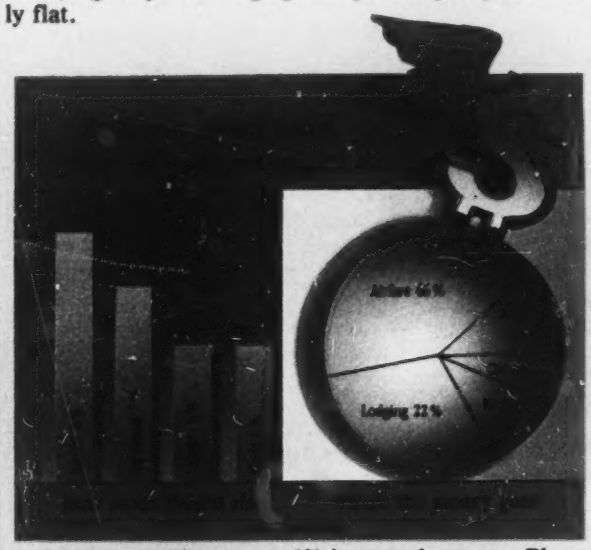
PRICE OUTLOOK: Count on continuing declines—with the red metal dropping down in the 85-95¢/lb. range by winter. Nor is any subsequent rally likely if forecasts for continuing new capacity additions and sluggish 1990 demand gains prove to be correct. **Cost trends also suggest price moderation**—and even the possibility of further price declines.



Travel costs go up in the air

Budget for continuing increases in business travel costs over the 12-month period ending 4Q 1990. So say analysts at Runzheimer, based in Rochester, WI. Their specific projections:

- **Airfares:** Another 8% boost is anticipated. That would be over and above the huge 25% or so hike in average business travel rates posted over recent quarters.
- **Car rentals:** The advance here should be an almost-as-large 7%. This is in addition to recent boosts forced by the dropping of collision damage waiver charges. Blame the new hikes on a used car glut—as the rental companies seek to make up for decreasing car trade-ins.
- **Lodging costs:** Averages will be up another 6%. Biggest boosts should be in mid-priced units. On the other hand, higher-priced lodgings will probably stay relatively flat.



- **Meal costs:** Figure on a 6% increase here, too. Blame it on the possibilities of more drought—coupled with last year's record hot summer, increasing wages and difficulties in finding service staff.

What does it all add up to? Runzheimer is putting the overall average gain over the four quarters near 7.1%. That's a bit above what the simple average of the four individual cost sectors would indicate—primarily because the fastest rising area (airfares) accounts for 44% of total travel dollars.

Paper supplies in better balance

CURRENT SITUATION: Finally some good news for buyers—the supply tightness of the past year or two seems to be giving way to better balance. This can best be appreciated by slowly declining operating rates in some sectors. All this is beginning to impact on prices.

Continued on page 11...

Sulfur prices headed down

Prices are edging lower. Thus, Frasch tags ex Tampa have just been reduced $4/ton (to $138/ton). Fear of Canadian imports, plus a general leveling in demand, are behind the new softness. On the Canadian question, customers are said to be lining up railcars to ship north-of-the border brimstone into the U.S. In any case, all this is in sharp contrast to last year when global tightness was sparking fears of a major shortage.

Molybdenum capacity abounds

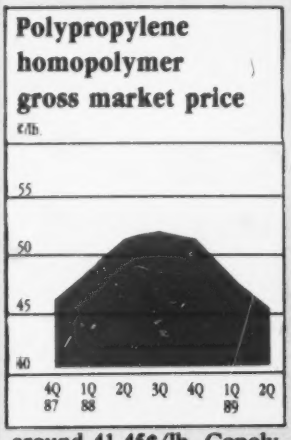
An attempt to post a 32¢/lb. oxide increase has failed to hold—with prices again falling to the $3.65/lb. level. Reason: softer demand from steelmakers—moly's major customers. Indeed, if current trends continue (production exceeding demand), the market may enter another period of oversupply. One thing for sure, there's plenty of capacity around. Current 1989 demand estimates, for example, remain at near 200 million pounds, unchanged from 1988 levels. But that's far under installed production potential which is now estimated to be up in the 260 million pound range.

Lead goes its own way

The heavy metal is bucking the trend toward weaker overall metal tags. In fact, prices have actually inched up a bit over the past few months (into the 39-40¢/lb. range). Even the normal summer weakness hasn't impacted on prices—and they could well move a bit higher this fall when a seasonal pickup normally occurs. Behind much of the bullishness: continuing gains in global demand. This year, total usage could reach 4.8 million tons—about 2% above 1988 levels. Longer run, however, the metal remains vulnerable.

Polypropylene drops off

Monopolymer grades have dropped off as much as 3¢/lb. over the past month—to



around 41-45¢/lb. Copolymer tags are off, too—but until now the decline has been gentler. On the other hand, the latter could also be ready for a sizable fall as one big seller offers this grade at 4-5¢/lb. under levels quoted by most other producers. As in the case of most other thermoplastic volume resins, the decline can be traced to big capacity additions (12% this year).

Aluminum use increases, prices decrease

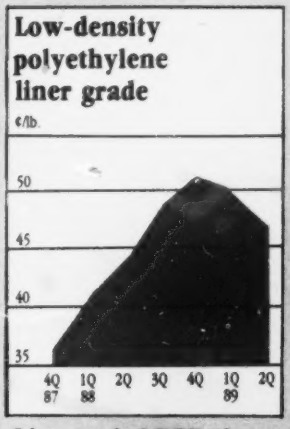
Ingot continues to slide—dropping into the 85¢/lb. range by mid-July—a far cry from this year's earlier $1.17/lb. peak. Improving supplies (global stocks are up 5% so far this year) are behind the slide. This is occurring despite a projected 2-3% boost in domestic shipments in 1989. True, the metal's construction market is down. But aircraft demand is taking off—and increased use of aluminum per car should offset the reduced number of vehicles sold. Next year should see some flattening out in overall demand. Coupled with new capacity, this should continue to put downward pressure on prices. Moreover, the long-term supply situation also looks good, as big new primary projects in Canada add significantly to global potential by late 1991.

Steel demand cools

Demand is beginning to taper off—with 3Q shipments now expected to fall under 20 million tons (*versus*] 22 million in the second quarter). And the final quarter's tonnage could drop even lower. Upshot: shipments for the year as a whole will be hard put to equal 1988's 84 million ton level. This demand pause, in turn, is making for some price softness. Indeed, there are already indications that spot prices on MR unprocessed sheet have dropped 3-7%—even after a $15/ton 2Q boost failed to hold. And there could be drops in other spot prices by as much as 5%. As such, overall composite tags (spot and contract combined) could be off as much as 3% by year end.

Polyethylene continues its fall

Prices on LDPE, HDPE and LLDPE have all dropped about 2-3¢/lb. over the past month—a continuation of a gradual downturn which first got underway at the beginning of the year.



Liner grade LDPE, for example, has been quoted as low as 38-39¢/lb. (*versus* the recent peak of 51.5¢/lb) and HDPE declines have dropped quotes into the 44-48¢/lb. range. Another sign of weakness: declining export prices, with liner grade LDPE going in the low 30s. Behind the slippage: 1) declining operating rates—90% now *versus* 94-96% last year, and 2) new capacity coming onstream this year—6% and 8% for LDPE and HDPE, respectively.

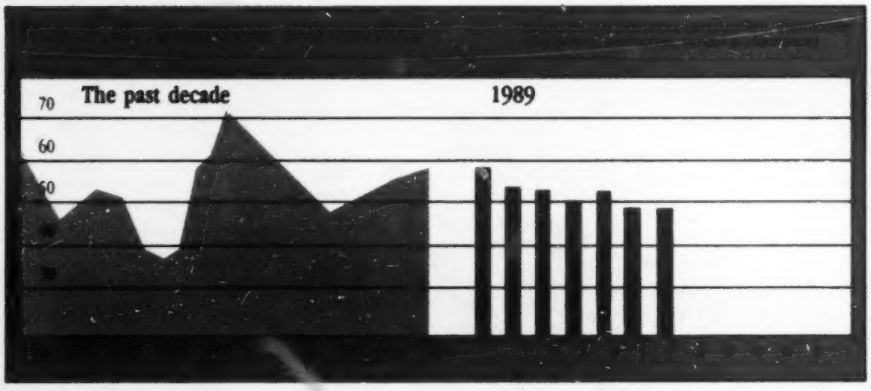
...Continued from page 10

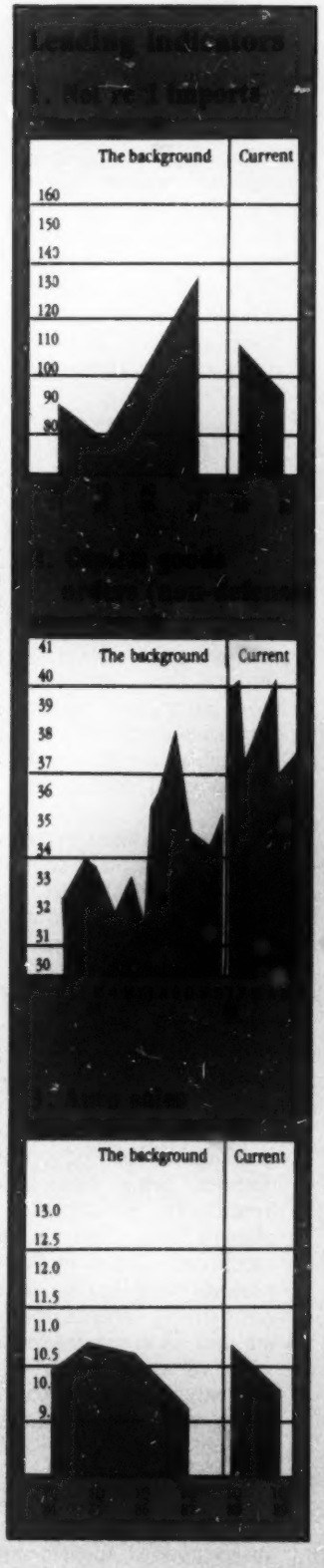
True, increases are still being posted, but they generally are quite small and harder to come by. A few have actually washed out—the most notable being the $30/ton hike in linerboard, where prices are still at year-ago $410/ton levels. There have also been a few rollbacks in coated papers—and discounts are not all that uncommon in hardwood pulp, tissue papers and newsprint.

DEMAND: Modest growth still seems assured. At this stage **another 4-5% advance in paper and paperboard production (to near 79 million tons) seems likely.** That would be pretty much in line with last year's gains but well under the 7.4% spurt of 1987. But there will be lagging sectors. Thus coated groundwood will do little more than equal last year as some inventory drawdown occurs.

SUPPLY: Heavy plant and equipment spending (projected to rise more than 40% in 1989) tells the story here. This gain will be more than enough to offset somewhat higher demand—pushing operating rates lower. Example: the coated groundwood utilization rate is expected to drop a significant five percentage points this year (to 92%). More modest 1989 decreases are seen for uncoated free sheet and linerboard—both expected to drop two percentage points. And the latter could well drop another three points in 1990 as corrugated demand gains slow. **All these, incidentally, are well under preferred rates which for the industry as a whole is put near 97%.**

PRICE OUTLOOK: The slow deceleration in rates of advance will continue. Reason: the relatively low operating rate projected have historically generated price competition in this industry. Best bet then: **only a 1-3% overall increase over the next six months.** This more restrained pattern should persist well into 1990 as the industry adjusts to huge chunks of new capacity (estimated by DRI at 9.9% this year and 6.7% in 1990). This should hold down converted product tags.





KEY ECONOMIC TRENDS

Slowdown continues

Growth deceleration is becoming increasingly apparent.

Factors behind the slowdown include 1) increasing reluctance on the part of consumers to spend on big-ticket items, 2) the somewhat more buoyant dollar which is beginning to hurt exports and encourage imports and 3) the fact that after six and a half years of constant growth, the longest peacetime expansion in history may be temporarily running out of steam.

All this is being mirrored in recent less-than-buoyant readings of leading economic indicators. The government index has slipped—and so has the widely monitored NAPM Business Barometer (see chart).

More important, this latter yardstick has remained below the neutral 50 level for the second straight month—suggesting that gains over the next quarter or so won't be all that easy to come by.

Robert Bretz, who compiles this index, notes that so far this year readings have averaged out at only 51.4%. He adds that if this average were to continue for the rest of the year it would be consistent with real GNP growth of about 2.3%.

While well under last year's 3.9% advance, this figure is still in the plus column—and that's an important point to keep in mind. Bretz, for example, says the index would have to fall below 44 before signalling a negative real GNP for the year—and most analysts just don't see this happening.

This basically "soft landing" scenario is based on more than just wishful thinking. Sure, there are the weaknesses detailed above. But there are also some strong points—most notably today's low stock/sales ratios, the easing of credit in recent weeks, and still relatively strong capital spending.

Even foreign trade doesn't look all that bad. Thus while the first chart suggests that net real imports (imports minus exports) may be bottoming out, totals remain well under 1986-87 peaks. In any case, the dollar would have to appreciate by another 10-20% to give foreign firms a really significant advantage again—and that just doesn't seem to be in the cards.

Meantime, the considerable strength in plant and equipment spending can be appreciated by looking at non-defense capital goods orders (second chart). True, figures are off a bit from recent peaks. But they still remain far above year-earlier readings.

More important, they seem to support recent surveys which show capital outlays running a strong 6% ahead of a year ago in real terms. That's well above last year's small 1% real increase.

Somewhat less ebullient, however, are disappointing car sales (last chart). They're running at less than a 10 million annual rate so far this year—considerably under last year's 10.6 million overall figure.

This, in turn, has prompted Detroit to lower its sales targets. A recent Ford projection, for example, sees combined auto and truck sales reaching only 14.7 million units this year—well under last year's 15.4 million total.

Finally, job data also indicates some slowdown—but again without a recession. Thus while non-farm

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employment gains lag a year ago, they are still quite considerable—with about 200,000 jobs still being added each month.

The fact that average overtime remains in the fairly high 3.8 hour range also has to be regarded as a reassuring sign; for expensive overtime is usually the first thing to be cut when things get really bad. And that's just not happening.

CURRENT PRICES

PPI confirms price drops

Uncle Sam's bellwether producer price index is confirming what more and more buyers have been experiencing in recent days: A noticeable dropoff in overall industrial pricing pressures.

Indeed, the latest government survey actually shows a fractional 0.1% decline from the previous month. And preliminary indications suggest a similar movement when the next report is released in a week or two.

Particularly encouraging, at least from the buyers' vantage point, are the growing number of price declines being reported. Specifically, in the sampling of 50 or so categories monitored monthly by *PurchasingWorld* in the accompanying chart, there are now 16 minus readings *vis a vis* a month earlier. You would have to go back a long way to match these kinds of figures.

Spearheading the downward trek this time around is energy—reversing the sharp upward movements of earlier this year. On the downside here were crude oil, gasoline, natural gas, home-heating oil, diesel fuel, jet fuel and liquid petroleum gas. These more than offset small boosts in lube oils and electricity.

Metals were also quite weak—as copper, aluminum, zinc and most precious metals all dropped. Steel also was fractionally lower—though this does not show up in the official index because reported steel quotes are mostly list-oriented.

Fairly significant declines were also noted in industrial chemicals, plastic resins, fertilizer products, synthetic rubber and paperboard. But inedible fats and oils as well as synthetic fibers managed to buck this general downdrift.

Also inching down (though only by about 0.1%) were construction materials. Declines in nonferrous wire and cable, flat glass and plastic building products were more than enough to offset advances in softwood lumber and switchboard items.

All in all, only capital goods, among the major index subsectors, managed to show some acceleration—rising 0.7% this past month *versus* only 0.4% during the previous 30-day period. On the upside here were ships, civilian aircraft, construction machinery, tools and dies, transformers and even office equipment.

Behind this acceleration: strong demand as industry makes good on its earlier predictions calling for a 6% increase in real plant and equipment spending this year.

Suppliers less bullish

Suppliers are becoming a bit less bullish—with fewer anticipating increases in sales and orders over the current quarter. At least that's what manufacturing executives are telling Dun & Bradstreet survey takers.

But this is not all bad. As Joseph Duncan, corporate economist for D & B puts it, "Expectations remain at high levels, lending support to the 'soft landing' scenario—and making a full-blown recession in the second half of the 1989 extremely unlikely."

Indeed, the slowdown is having some positive effects as far as buyers are concerned: the number of manufacturers expecting higher prices *vis a vis* a year ago is beginning to fall off.

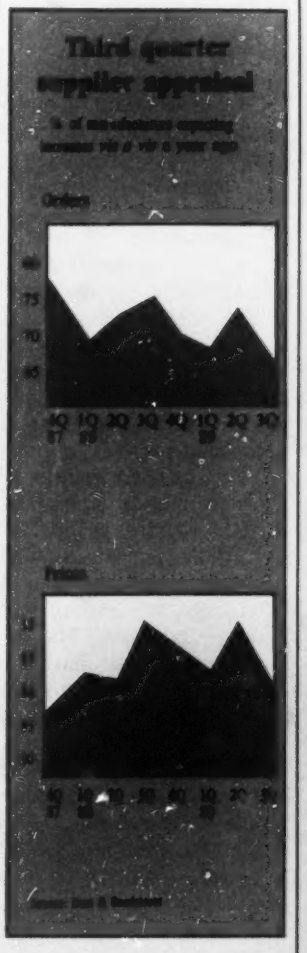
Three months ago, when the survey was last taken, some 50% of factory executives were projecting higher price tags for that quarter. Now the percentage has dropped to 41—the lowest such level in nearly two years (see accompanying chart).

The gradual deceleration in demand is also expected to impact on inventory strategies. Example: only 36% expect to increase their holdings over the current 3-month period.

Compare that to just three months earlier when the accumulation rate was 43%. Also worth noting: the number contemplating inventory paring is growing—16% currently *versus* only 10% three months ago.

Coming back to demand, the 67% of respondents looking for order gains, while still impressive, is significantly under the 74% reading of the 2Q. D & B's Duncan feels that, in large part, this is due to the stronger dollar—something which is making U.S. goods less competitive in foreign markets.

But as noted, Duncan remains basically optimistic—adding that the recent drop in interest rates, coupled with still relatively strong export demand, "should continue to boost manufacturers' sales."



PROCUREMENT STATUS REPORT

Most shortages are gone

The slower economic growth of the past few months has just about eliminated most procurement problems. Price inflation has certainly eased, leadtimes are steady or even shrinking a bit in some cases, and most shortages are now nothing but an unpleasant memory.

Looking at leadtimes first—*PurchasingWorld's* exclusive index here is again being clocked in slightly under the neutral 50 mark (48 to be exact). Implication: Slightly more items are coming in than are stretching out these days.

Further confirmation on improving vendor performance comes from the NAPM Business Survey Committee's speed-of-delivery tally. Specifically, more vendors report faster than slower deliveries for the second straight month.

More important, the gap is widening. Thus the current advantage in favor of faster deliveries is eight percentage points. A month earlier the favorable gap was a minuscule one percentage point.

Not surprising, the NAPM vendor delivery index (50 is again neutral) fell to 47.5 this past month. That's the lowest level in nearly four years and clearly signals improved market balance.

This better balance is also indicated by a sharp decline in the NAPM list of items in short supply. There were only 10 at latest count, the fewest since October

A better supply situation is also being reflected in the reluctance to add to inventories. *PW's* survey on this subject (detailed elsewhere in this issue) certainly would seem to confirm the close-to-the-vest stance. So would new NAPM queries showing 1) stock declines every month this year and 2) the relatively few PMs (only 18%) who are committing 90 days or more in advance for their production materials.

Operating rate estimates are also upbeat—at least from the buyer vantage point. Significant declines in utilization rates, for example, have recently been noted in the paper, chemical, plastic resin and steel areas.

And while all this certainly doesn't make for a return to the all-out buyers' markets of a few years back, it does suggest a lot better balance—and with this a lot more bargaining leverage.

Workstations in battle array

A fiercely competitive battle is brewing in the workstation area, as this relatively sophisticated piece of computer equipment gears up for an all-out fight with high-end personal computers.

Producers of the latter aren't sitting on their hands either. PC makers feel, for example, that their new high-end machines—enhanced by faster processing, improved graphics, etc.—can capture some of the workstation's bread and butter CAD-CAM business.

But whether they succeed or not remains to be seen. Workstations are fighting back hard with RISC processing, top-grade graphics, networking capabilities, and a host of other pluses. Their aim: To offer buyers a lot of machine in the relatively low $5,000-10,000 range.

In any case, some workstation producers now make equipment selling for $7,000 or less. And the hope is that this will attract current PC users involved in software development, desktop publishing, data processing, finance and other applications.

One thing is for sure, workstation prices are falling (see chart). Thus the average price (which includes expensive—up to $60,000—

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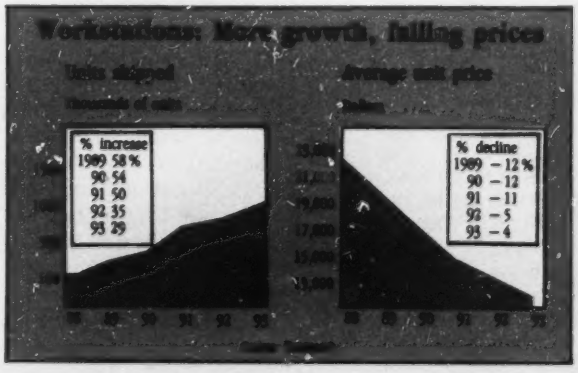

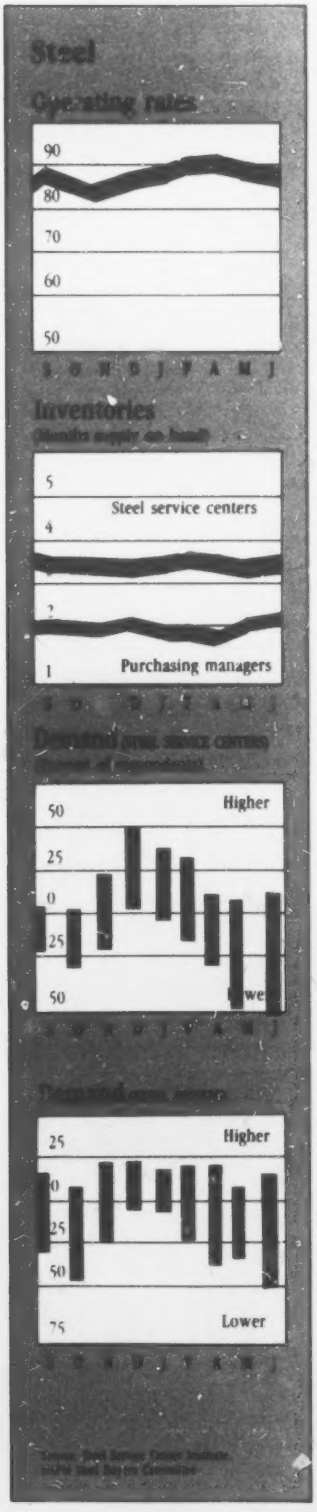

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machines as well as cheap models) is expected to fall about 12-13% annually over the next few years. And if you zero in on low-end machines, the declines are likely to be even more precipitous.

On the other hand, few see prices falling much under $5,000. But with increasing performance, this price range should become even more attractive to potential buyers.

With this in mind, Dataquest—a San Jose, CA-based research outfit—projects some impressive near-term unit sales gains: better than 50% annually on a global basis over the next few years—with only a slight tapering off into the 30-35% range in 1992 and 1993 when the market finally begins to mature.

STEEL SCENE

Steel prices topping out

Steel prices may be ready to top out—with maybe even some modest erosion possible in the months ahead.

At least that's what service centers are telling the Steel Service Center Institute (SSCI) these days. In any event, an impressive 43% of the group's members now feel their replacement costs will be lower six months ahead than they are today.

That's the biggest such percentage in years and is far above the 8% who feel small (2-5%) advances are possible over the same time span. Contrast this last figure to early 1988 when as many as nine out of ten respondents were betting on near-term price increases.

Lower prices, incidentally, are also being projected by the big econometric models. Wharton Econometrics (the WEFA Group) sees the composite price (all grades, all transactions) falling to $523/ton by the 4Q—about 3% under the average 2Q 1989 level.

The rationale behind all these projections is relatively simple: demand is falling—and coupled with growing availability, this is making the market a lot more competitive.

On the demand front, for example, the majority (52% to be exact) of buyers queried by the NAPM Steel Committee say they will be taking in less-than-current tonnages of steel over the next quarter. This far outweighs the 7% who feel some increases in their metal purchases may be in order.

Put another way—the gap between those contemplating decreases and those contemplating increases has soared to 45 percentage points. Compare that to as recently as March when increases actually predominated.

This same picture is also presented by the nation's steel service centers. Specifically, 54% now expect their incoming orders to drop off over the next three months—while only 8% see gains. The gap here is 46 percentage points—almost identical to that indicated by the nation's top steel buyers.

These lowered expectations mean that service center overall shipments—after running virtually level with 1988 during the first half of the year—may actually turn down a bit when the final 1989 tally is in. SSCI President Andrew G. Sharkey feels the yearly tonnage will slip 3-4% under last year's peak 23.5 million ton level.

The big problems, he says, are in the construction and auto markets—and as such, service centers may also have to cut back on inventories. Following up on this latter point, Sharkey adds, "There's no question that SSCI members want to decrease inventory levels that are again approaching seven million tons."

The latest SSCI report backs up this likely inventory paring. Thus for two months running more than two out of every three respondents say their stock levels are too high compared to current shipments. That's a big jump from as recently as April when only 43% felt their holdings were on the high side.

PMs, too, seem determined to cut back on steel tonnages. An even more impressive 74% here say they'll be aiming at lower steel stock levels over the next six months. That's the highest such figure in years and could well represent some attempts to cut back after recent modest hedging against possible strikes.

Another factor leading

Continued...

Import prices

(compared to domestic)

Steel buyers

ABOVE 52%
SAME 22%
SLIGHTLY BELOW 26%
SUBSTANTIALLY BELOW 0%

SERVICE CENTERS (carbon)

ABOVE 2%
SAME 85%
5-10% BELOW 13%
10-20% BELOW 0%
OVER 20% BELOW 0%

...continued

to tighter inventories: increasing availability and fading fears of shortages. Only scattered fears of stockouts are noted—and then only in the plate, bar, heat-treated, electrical and coated sheet areas.

More important, some 82% of surveyed PMs see no problems at all over the next six months. That's more than double the 34-35% problem-free figure noted as recently as this spring.

This month's breakdown

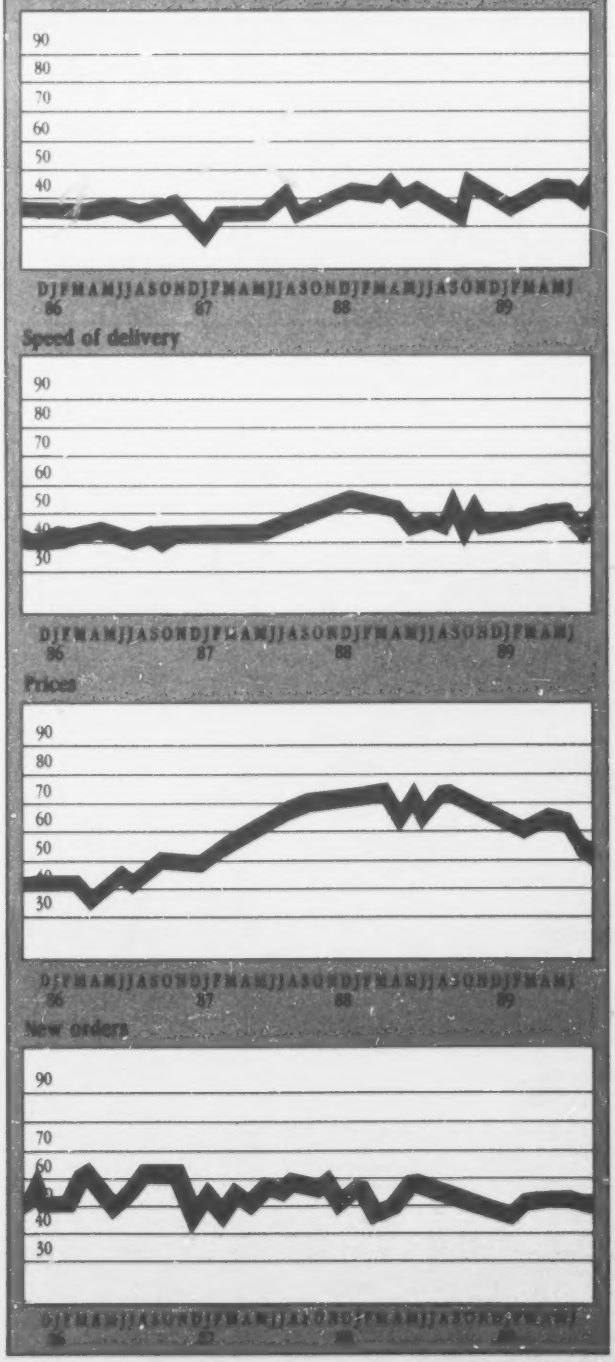
Index: 1982 = 100

	Latest level (June)	% change from: Month ago	Year ago
Bearings	124.5	−0.2	12.2
Bolts, nuts, etc.	111.9	1.1	4.8
Chemicals, inorganic	108.0	0.1	7.0
Chemicals, organic	117.6	−2.9	10.1
Concrete products	111.2	0.4	1.0
Corrugated cartons	112.8	−0.3	1.9
Cutting tools, small	110.0	0.2	2.8
Electric lamps (bulbs)	124.0	0.0	−1.6
Electronic components	119.6	0.1	1.7
Fans and blowers	117.6	−0.1	3.8
Foundry and forge products	114.6	0.3	4.7
Fuel oil (residual)	51.2	3.6	17.2
Furniture, commercial	128.7	0.2	4.0
Gasoline	74.8	−2.7	26.4
Glass, flat	110.3	−0.6	1.1
Glass containers	116.4	0.3	3.7
Gypsum products	109.1	−1.4	−1.2
Hand tools	127.6	0.3	6.0
Hand tools, power driven	116.1	0.2	4.0
Industrial furnaces	124.1	0.1	3.3
Integrating and measuring instruments	118.6	0.4	3.4
Internal combustion engines	113.5	0.0	2.3
Lubricating oil	111.3	4.2	5.6
Lumber millwork	128.1	0.1	5.1
Material handling equipment	111.9	0.5	4.3
Metal containers	110.7	0.2	0.4
Metal mill shapes (nonferrous)	135.6	−2.2	4.3
Metal tanks	111.2	−0.4	5.9
Motors and generators	129.2	0.2	6.4
Motor trucks	128.6	−0.3	4.0
Office and store equipment	109.3	0.6	2.8
Paperboard	141.3	−1.5	5.4
Paper boxes and shipping containers	130.3	0.3	5.0
Paper office supplies	121.4	−0.7	6.1
Paint	119.2	0.3	6.4
Plastic resins	138.8	−0.9	5.8
Precision measuring tools	125.3	−0.2	3.2
Pumps and compressors	115.1	0.4	5.7
Refractories	119.9	0.2	5.4
Rubber belts and belting	112.3	−0.1	6.7
Scales and balances	106.3	0.1	0.4
Steel products	114.8	0.1	3.7
Switchgear	119.3	0.3	5.2
Textiles, synthetic fibers	106.1	1.3	9.8
Textiles, gray fabrics	114.5	0.5	−0.1
Tires and tubes	98.0	0.0	4.5
Transformers and power regulators	117.7	1.4	9.5
Welding equipment	122.3	0.0	3.8
Wire and cable	143.4	−3.1	5.9

NAPM procurement trends

(seasonally adjusted diffusion indexes)

An index where 50 is defined as the neutral level, so the extent a reading is above 50 is represents an expansionary tendency. Most particularly, rising inventory prices, and new orders are seen as positive signs of economic growth. A trend toward slower deliveries is similarly interpreted.


Inventories
90
80
70
60
50
40
D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
86
87
88
89
Speed of delivery
90
80
70
60
50
30
D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
86
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Prices
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D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J J A S O N D J F M A M J
86
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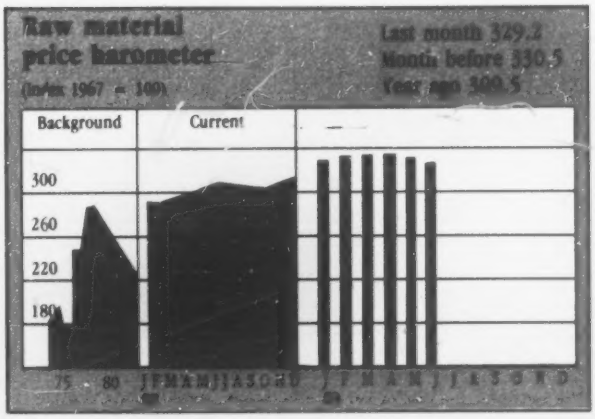
New orders
90
70
60
40
30



Latest spot market prices

	Latest price	Previous month	Year ago
FERROUS METALS			
Pig iron, basic, valley, gross ton	213.00	213.00	213.00
Pig iron, Bessemer, Pitts., gross ton	213.00	213.00	213.00
Steel, billets, Pitts., net ton	367.00	367.00	367.00
Steel, structural shapes, Pitts., cwt.	23.90	23.90	23.90
Steel, structural shapes, Chi., cwt.	23.90	23.90	23.90
Steel, structural shapes, Los Angeles, cwt.	23.90	23.90	23.90
Steel, bars, divd. Phila., cwt., merchant quality	18.70	18.70	16.50
Steel, bars, Pitts., cwt.	18.70	18.70	16.50
Steel, bars, C.R., Pitts., cwt.	25.20	25.20	19.45
Steel, plates, Pitts., cwt.	23.75	23.75	22.75
Steel, plates, H.R., Pitts., cwt.	23.25	23.25	22.75
Steel, sheets, C.R., Detroit, cwt.	29.65	29.65	28.15
Steel, strip, C.R., Chi., cwt.	36.18	36.18	36.18
Steel, basic wire, Pitts., cwt.	23.65	23.65	23.65
NONFERROUS METALS			
Aluminum, ingot, lb. (market place)	.844	.930	1.220
Antimony, N.Y., dealer, lb.	.98	.95	.95
Beryllium-copper, cost ingot, lb.	5.90	5.90	5.90
Brass, red, 85%, [sheet], lb.	1.70	1.81	1.71
Brass, yellow, [sheet], lb.	1.66	1.77	1.66
Cadmium, N.Y., dealer, lb.	6.10	6.80	8.00
Copper, electrolytic, wire bars, refd., lb.	1.07	1.18	1.07
Copper sheet, over 24 in., lb.	1.79	1.90	1.79
Lead, common, N.Y., lb.	.39	.38	.36
Magnesium, pig ingot, [99.8%], lb.	1.63	1.63	1.58
Mercury, 20 fl. lots, N.Y., fl.	290.00	295.00	370.00
Molybdenum, oxide, dealer, lb.	3.48	3.70	3.39
Nickel, cathode, dealer, lb.	5.45	5.65	6.60
Platinum, dealer, oz.	508.00	496.00	543.00
Silver, N.Y., oz.	5.36	5.21	6.97
Tin, N.Y., dealer, lb.	4.62	4.64	3.32
Zinc, Prime West, East St. Louis, lb.	.80	.85	.66
Zinc, die casting alloy, No. 3, lb.	.880	.930	.735
PAPER			
Uncoated book #3 offset, ton	1020.00	1020.00	920.00
Watermarked bond, ton	1095.00	1095.00	1070.00
Gummed sealing tape, carton	18.68	18.68	17.71
Grocery sacks, ton	495.00	495.00	455.00
Solid bleached paperboard, ton	780.00	780.00	685.00
Kraft linerboard, 42 lb., unbleached, ton	410.00	410.00	410.00
TEXTILES			
Burlap, 10 oz., 40", N.Y., yd.	.286	.282	.276
Cotton drill, 1.85, 59", 68x49, N.Y., yd.	1.22	1.22	1.22
Cotton middling, 1", N.Y., lb.	.648	.611	.577
Printcloth, 48", 80x80, N.Y., spot. yd.	.50	.50	.52
Army duck, 37", 13 oz., yd.	1.40	1.40	1.51
Blended printcloth, 64", 78x54, yd.	.780	.775	.650
20s combed yarns	1.89	1.85	2.00
Wool 64s, Staple, lb.	3.50	3.75	4.50
CHEMICALS			
Acrylonitrile, tanks, lb.	.400	.400	.395
Ammonia, anhydrous, tankcars, Gulf Coast, ton	65.00	103.00	100.00
Benzene, petroleum, tanks, Houston, gal.	.97	1.22	1.08
Caustic soda, 76% solid, drums, carlots, cwt.	28.00	28.00	26.00
Cresylic acid [over 25%], tanks, lb.	.55	.55	.55
Formaldehyde, USP, 37%, [12% to 15% meth.], tanks, lb.	.106	.106	.106
Glycerine, synthetic, tanks, lb.	.845	.845	.735
Methanol, syn., tanks, 4,000 gals., f.o.b. Gulf Coast plants	.49	49	.55
Naphthalene, crude, tanks, lb.	.16	.16	.22
Phthalic anhydride, tanks, lb.	.41	.41	.35
Polyethylene resin, low density liner film grade (market place), lb.	.440	.465	.465
Polypropylene, homopolymer grade (market price), lb.	.430	.450	.400
Polystyrene, general purpose grade (market price), lb.	.545	.565	.600
Polyvinyl chloride, pipe grade (market price), lb.	.405	.415	.420
Soda ash, 58%, light carlots, cwt.	6.15	6.15	6.15
Styrene monomer, 99.6%, tanks, lb.	.425	.470	.450
Sulfur, crude, ex-terminal, Tampa, Fla., lt.	138.00	142.00	127.50
Sulfuric acid, 66%, commercial, tanks, ton	66.86	66.86	66.86
Titanium dioxide, anatase, reg., carlots lb.	1.020	1.020	.870
Xylene tanks, gal.	.95	1.45	.87
BUILDING MATERIALS			
Lumber, 2x4 fir, mbf, cl	334.33	328.56	330.55
Lumber 2x2 pine, mbf, cl	321.51	317.14	321.85
Plywood, plyform, ¾", msf, cl	608.72	602.66	578.60
Plywood, ⅜", msf, cl	354.72	361.53	412.45
Cement, bulk, ton, tl	63.14	63.14	66.39
Sand, ton, cl	7.12	7.12	7.43
Ready-mix concrete, 3,000 psi/cu. yd., 15 cu. yd.	48.67	48.53	48.01
Crushed stone, 1½", ton, cl	N.A.	N.A.	N.A.
Concrete blocks, sand/gravel, 8"x8"x16", per hundred	89.59	89.10	N.A.
Reinforcing bars, whse base; per cwt	22.67	22.79	20.72
Asphalt paving AC-20	108.22	109.36	121.95
Vitr. Clay Sewer Pipe, Prem Joint, 12", per ft, cl	N.A.	N.A.	N.A.
Concrete sewer pipe, 24", prem. joint, per foot, cl	17.89	17.89	N.A.
FUELS			
Crude oil (W. Tex Int Cush), bbl.	20.55	20.50	14.70
Diesel (reseller rack, Chi), gal.	.4950	4950	.4275
Fuel oil No. 2 (N.Y.), gal.	.4885	.4950	.4040
Fuel oil No. 2 (Gulf spot), gal.	.4675	.4875	.3900
Fuel oil No. 6 (N.Y.) contract cargo, bbl.	19.25	20.00	15.75
Gasoline (reg lded NY), gal.	.6085	.7080	.6125
Gasoline (reg unlded NY), gal.	.5885	.6955	.5900
Kerosene (reseller rack, Chi), gal.	.5810	.5775	.4750
Propane (Mt. Belvieu, Tex), gal.	.1988	.2013	.1900
SCRAP MATERIALS			
Steel, No. 1, hvy., divd., Pitts., ton	102.00	110.00	120.00
Steel, No. 1 hvy., divd., Chi., ton	108.00	113.00	120.00
Copper, No. 1, East, wholesale buy, divd., lb.	.935	1.040	.885
Copper, No. 2, East, wholesale buy, divd., lb.	.860	.945	.780
Brass, red, East, wholesale buy, divd., lb.	.895	1.000	.845
Brass, yellow, East, wholesale buy, divd., lb.	.570	.575	.470
Alum., old sheet/cast, E., wholesale buy, divd., lb.	.525	.635	.655
Alum., mixed clip., E., wholesale buy, divd., lb.	.600	.715	.730
Zinc, old, East, wholesale buy, divd., lb.	.38	.38	.24
Lead, clean solids, East, wholesale buy, divd., lb.	.22	.22	.22
Paper, No. 1 mixed, dlr., N.Y., ton	Nom.	Nom.	Nom.
Paper, old corrug. box, dlr., Chi., ton	Nom	Nom.	20.00
Paper, old corrug. box, dlr., N.Y., ton	Nom.	Nom.	10.00
Old newspapers, Chi., ton	Nom.	Nom.	10.00
Old white ledger, Chi., ton	75.00	75.00	85.00

[Sources: Metals Week, American Metal Market, Engineering News-Record (20-city averages), The Wall Street Journal, Journal of Commerce, Chemical Marketing Reporter.]

Chem runups are over

Current versus year-ago prices

Product	Current price	% change from year ago
Benzene	$1.15/gal.	+5
Phenol	.45/lb.	+17
Styrene	.4375/lb.	−4
Toluene	.85/gal.	+6
Xylenes (mixed)	1.35/gal.	+52
Butadiene	.185/lb.	−16
Ethylene	.32/lb.	+14
Methanol	.49/gal.	−15
Propylene	.205/lb.	+21
Vinyl chloride	.245/lb.	+1
Ammonia (Gulf barges)	70.00/ton	−17
Caustic Soda (Gulf railcars)	235.00/ton	+52
Chlorine(Gulf tankcars)	85.00/ton	−38
Soda Ash (Wyoming)	86.50/ton	+8
Sulphuric acid (S.E. tankcars)	75.00/ton	+2
Low-density polyethylene (liner)	.465/lb.	−2
High-density polyethylene (injection)	.48/lb.	−2
Polypropylene (homopolymer)	.45/lb.	−12
Polystyrene (general purposes)	.57/lb.	−5
PVC (pipe)	.425/lb	+6

Source: Chemical Marketing Reporter

Chemical markets have begun to lose some of their zip.

Sure, demand is still rising. But gains are now relatively modest—only in line with today's slow-growing economy. And the big price runups of last year are starting to taper off—though on balance, tags are still in a rising trend and remain well above year ago levels in most instances (see accompanying table).

A look at recent numbers documents the general deceleration. Chemical output gains during the first half of the year, for example, were just under 4% at annual rate--well under the 8%-plus advance racked up for all of 1988.

And a similar trend is noted for chemical quotes. Price increases in recent months have averaged out in the 4-5% annual range—less than half last year's 9%-plus overall spurt.

To be sure, a spate of new 3Q increases has been posted. But it should be noted that the increases are not only smaller, they're not quite as numerous as they were at the start of other recent quarters.

Also worth noting: There are now even a few scattered declines cropping up—for the first time in years. Thus such key product lines as ethylene, benzene, styrene, phenol, thermoplastic commodity resins and fertilizers such as ammonia, all have softened over the past few months.

And even some of the big inorganics are somewhat less buoyant. Included here are sulfur, where some easing is noted in recovered material, and in soda ash where a $12/ton hike has failed to hold up.

Increasing supplies as well as smaller demand gains could be a factor in the flattening out of the price curve. New capacity in recent quarters has been coming onstream at a somewhat faster clip than new orders. Upshot: the industry utilization rate is now fractionally under what it was at the beginning of the year.

Also on a somewhat bearish note: there has been a slow rise in industry inventories. True, some of this has been needed to meet expanded sales volume—but not all of it. Thus the finished chemicals stock/sales ratio at latest report was up near a 1.35 months' supply—about 3% above year-earlier readings.

On the other hand, bullish news is still the order of the day on the import-export front. Specifically, year-to-date figures show a 20% rise in the U.S. trade surplus *vis a vis* 1988 readings.

The big question, of course, is where do we go from here? Assume the standard economic growth forecast for the rest of the year into 1990 (2.5-3% annual GNP growth)—and the best bet seems to be for more of the peaking out tendency that has recently become evident.

Keeping the above in mind, here's a brief rundown (summarized in the market trend chart) on what you can probably expect in this close-to-

$250-billion industry over the next year or so:

● **Demand:** The overall advance will continue to slow down—with maybe a 3% annual rate of gain during the last six months of 1989—and only a slight pickup to around 3.5% for 1990 as a whole.

Further confirmation of a less ebullient industry comes from producers themselves. A recent survey, for example, finds them putting the real 1989 demand gain at 3.7%—a far cry from last year's big advance.

But, as might be expected, there will be some subsector variations. Plastic materials should lead the pack—growing at about a 6% rate over the rest of the year. And even the 4.5% gain seen here for 1990 will be somewhat above the all-chemical industry average.

On the other hand, organics, which recently have been growing at near-double-digit rates, will slow down substantially—to around a 5% rate in the second half of 1989 and to only 4% for 1990 as a whole.

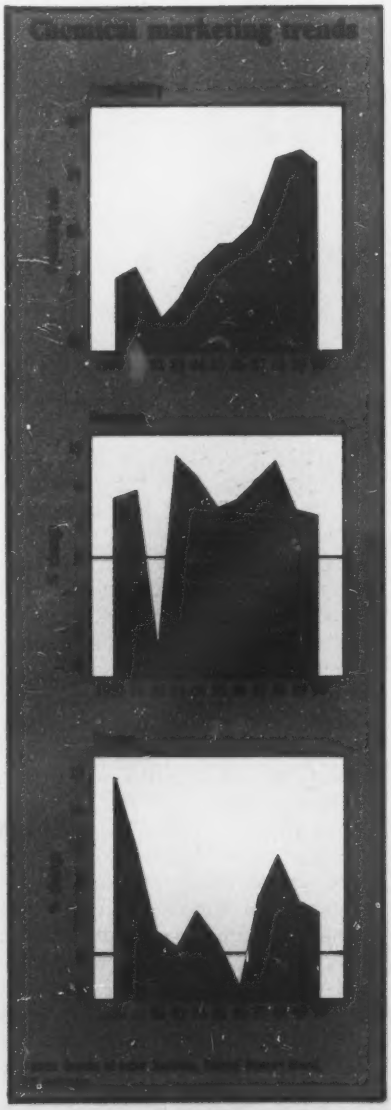
And at the bottom will be paints (actually declining because of the construction slump) and agricultural chemicals where recent negative production figures are expected to spill over into 1990.

● **Availability:** The demand decelerations detailed above will be occurring at a time when a lot of new capacity is scheduled to come onstream. Lest there be any doubt on that score, take a look at the industry's 1989 capital spending plans. One recent survey puts the dollar increase at over 20%—and this is on top of 1988's even larger 24% spurt. No matter how you slice it, this should add up to a lot of new production potential.

As such, the current 88% operating rate could well slip a percentage point or two by next spring or summer. And in some cases where big new chunks of production potential are slated to come onstream, the drop could be a lot more precipitous than that.

Thus it is highly unlikely that plastic resin demand gains in 1989 and 1990 will equal the 18% increase in new capacity scheduled here over this two year period.

"Chemical output gains during the first half of the year were well under the 8%-plus advance racked up for all of 1988."



Indeed, the 91% operating rate for the plastics industry last year (one that made for a relatively strong sellers' market) is likely to dwindle to 87% this year—and fall even lower in 1990.

Some of the monomer increases on the drawing boards are equally impressive. U.S. ethylene producers plan on a 27%-plus increase over the next few years. And similar advances are contemplated for both styrene and vinyl chloride monomer.

● **Prices:** The changing market balances implied by the above supply/demand projections suggest a fair amount of price relief. And this could be further aided by expectations of steady oil prices after the big runup of late 1988 and early 1989. Such steadiness should help put a lid on petrochemical feedstock costs—a major factor in the organic and plastic resin pricing equations.

PurchasingWorld projections call for a continuing deceleration in the rate of overall chemical price inflation. In fact, by early next year, the aggregate increase (relative to 1989 average) is only likely to be in the order of 2-2.5%.

But again some subsector variation is likely. Plastic resins, for example, may find it hard even to equal this rate of advance and could well edge a bit lower. On the other hand, specialty chemicals should outperform the market. Ditto, some of the big inorganic categories like chloralkalies.

To sum up—the halcyon days of the chemical industry with its big profits are gradually coming to an end. On the other hand, if demand, cost and price projections are anywhere near correct, earnings and margins should still remain at respectable levels.

That doesn't rule out increasing opportunities for savvy buyers. Clearly, the sellers' market is on the way out. Implication: A lot more wheeling and dealing in this historically competitive industry—with off-list pricing again becoming more the rule than the exception. **PW**

PMs debunk inventory myth

Purchasing managers are playing a major role in debunking a long-standing economic myth—namely that in the mature stages of a business upturn inventories tend to rise to the point where they eventually become unwieldly.

The proof comes from latest Commerce Department statistics. Note from the chart that the purchased material stock/sales ratio (a measure of PM months' supply) is actually lower than it was one and two years ago. And the same is true of goods in process and finished goods—thus alleviating the need for any "inventory correction."

PMs queried in a new nationwide *PurchasingWorld* survey cite several reasons for this major change in inventory trends. For one, interest rates remain close to the double digit level—enough to push annual carrying costs up to the 24% and higher ranges.

Then there's availability. The few shortages which cropped up last year have all but disappeared as new supplies continue to come onstream. Upshot: There is now even less incentive than in 1988 to lay away any extra supply.

Last but not least, there's the increasing drift toward just-in-time and other sophisticated inventory techniques. The *PW* survey, for example, finds that nearly three out of every five respondents are moving toward implementation. And another 12% say they already have such a system in operation.

Another survey question also confirms the lack of any major concern about supplies. Less than one out of four, for example, say they are worried about leadtime stretchouts over the next few quarters. That's in sharp contrast to the nearly 50% who experienced at least a few leadtime extensions over the past half year or so.

The lack of concern about availability also shows up in the absence of hedging against possible work stoppages. Not one purchasing manager admits to this kind of hedging. Contrast that to previous *PW* surveys which found a substantial number of buyers factoring possible supplier strikes into their procurement strategies.

And this PM labor appraisal makes good sense. So far this year, for example, there has not been one major strike—despite all the hard bargaining in the steel, nonferrous metals, communications and construction industries.

There has also been a decline in hedging against future price increases—as fears of inflation gradually subside. Specifically, only 30% say they are still laying in a bit extra in anticipation of price advances (compared to a 1988 35% reading when a similar survey question was posed).

Equally significant, all of these respondents say such price hedging is spotty rather than across the board.

But perhaps the best indication of all that things are under control is the fact that buyers judge average inventory holdings to be pretty much in balance—with those rating stocks as a bit too high balanced out by those rating them as a bit too low.

And this is probably a very accurate appraisal—judging from the previously cited government report showing the key durable purchased material stock/sales ratio down at only 0.54—an all-time low despite the fact that the ratio traditionally jumps at this stage of the business cycle.

More important, chances are this crucial ratio will remain close to current low levels through the foreseeable future. True, 60% of the respondents feel some tonnage increases may be needed over the next six months. But all say the boosts will be quite modest and just about in line with the gains in production and sales that they see for the same period.

Several helping factors are cited in their drive to keep stocks "lean and mean." In addition to the aforementioned emphasis on JIT, respondents note such other inventory controls as 1) more use of blanket orders and long-term contracts, 2) improved final demand forecasting, 3) more computerization and EDI hookups, and 4) closer liaison with major vendors.

The PM view is summed up by one East Coast buyer who notes, "Keeping close tabs on inventories is more important than ever now that economic gains are becoming more 'iffy.' We have the tools to do it—hence our aim to keep stock/sales ratios at or near current low levels through 1989 and even into 1990." ***PW***